Annual Report
1996

DEVLAN
EXPLORATION COMPANY LTD.

620 , 700 - 6th Ave. S.W., Calgary, AB T2P 0T8 • Phone (403) 233-7778 Fax (403) 261-3808

DEVLAN EXPLORATION COMPANY Ltd.

President's Message

We are pleased to report that 1995 has been a productive year for Devlan Exploration Company Ltd. This year saw the transformation of a junior capital company (formerly known as Oban Petroleums Inc.) into a fledging petroleum company poised for future growth and expansion. There was the appointment of new management, rejuvenated growth, assets disposition and a new company name -- symbolic of our new beginning and commitment to becoming a dynamic and established corporation within Alberta's oil and gas industry.

At our annual general meeting of February 1, 1996, shareholder control from Oban Petroleums Inc. was transferred to 667349 Alberta Ltd. The principals from this Alberta numbered company are with Bredal Energy Corporation, a successful Drayton Valley-based private petroleum company, operational in Alberta, since 1992. We intend to utilize the same management concepts that accelerated Bredal Energy's growth to 500 barrels of oil equivalent per day with 1.25 million barrels of proven oil reserves. That strategy is comprised of focusing on core oil and gas producing properties and implementing appropriate technology; while streamlining non-core producing properties. Through prudent and sound analysis of potential acquisitions and stringent operating practises, we are confident in duplicating our success at Devlan Exploration.

A private placement completed on January 16, 1996, raised $1,102,500 which provided funds for our recent ventures. First to generate cashflow, 12 shallow gas wells and compression facilities of the Keho/Coaldale property, in the Lethbridge region were acquired. At the closing date of this acquisition, the Keho sweet gas plant was shut-in and two viable Coaldale wells were waiting to be tied in. In February 1996, the Keho gas plant became operational. Alberta Energy and Utilties Board approval for the surveyed pipeline to tie in the remaining Coaldale wells is expected October 1996.

In our Oyen farm-in agreement with partner Templar Energy Ltd., a former shut in well 10-36-28-06 W4 was completed and tied-in and is now producing 200 thousand cubic feet per day.

Two additional wells were drilled this year, the first well is located near Oyen at 06-01-29-07 W4 and the second is a wildcat gas well near Knappen along the Montana border, at 06-04-01-11 W4. Both wells are currently being evaluated to determine the most effective economic development strategy.

Our goal for the upcoming year is to increase current production levels from 100 to 500 barrels of oil equivalent per day, through a combination of bank and equity financing. We are confident that this objective can be met. And we thank all those stakeholders whose committment and support have made Devlan Exploration successful to-date.

Martin J. Cheyne, President

DEVLAN EXPLORATION COMPANY Ltd.

Mission Statement

Devlan Exploration Company Ltd. is committed on becoming a dynamic and established petroleum company within Alberta's oil and gas industry. The company is focused on identifying and procuring core oil and gas properties with strong cashflow opportunities. Through prudent analysis, sound operating practises and the implementation of appropriate technology, Devlan Exploration anticipates steady growth, accompanied by continued appreciation of shareholder value.

Corporate Profile

Based in Calgary, Alberta, at the heart of the Canadian petroleum industry, Devlan Exploration is positioned for future growth and development. It is engaged in the business of oil and natural gas exploration and production.

This company was originally incorporated as 542276 Alberta Inc. on September 18, 1992. Its corporate name has since been changed January 15, 1993; March 8, 1993 and February 14, 1996, respectively, to Athol Petroleums Inc., Oban Petroleum Inc. and Devlan Exploration Company Ltd.

Oban Petroleum was a junior capital pool company, listed on the Alberta Stock Exchange on April 14, 1993. It became an active petroleum company on June 1, 1993 and acquired properties in the regions of Milk River, Taber South East, Bow Island, Taber North, Enchant, Retlaw and Knappen.

On November 30, 1995, Oban took on a new direction when shareholder control was transferred to the principals of 667349 Alberta Ltd. This new management team, also with the successful private Bredal Energy Corp. began re-organizing Oban's corporate structure to improve cost effectiveness, applying outsourcing where relevant.

Today, Devlan Exploration owns and operates 16 gas wells, six oil wells and two water wells in the areas of Keho/Coaldale, Milk River, Taber South East, Enchant, Retlaw and Knappen. It is also a partner with Templar Energy in a farm-out agreement in Oyen, with two gas wells. Current production is 100 barrels of oil equivalent per day. The ten producing gas wells in Keho/Coaldale are producing 750 thousand cubic feet of gas daily and an Oyen well being operated with Templar Energy is producing 200 thousand cubic feet of gas daily. Total property is comprised of 38,400 gross acres (24,992 net acres) with reserves of 3206 million cubic feet of gas and 790,000 barrels of oil equivalent in place.

Devlan Exploration Company Ltd.

Overview of Operations

The precluded financial statements are reflective of Oban's past and now provides a benchmark from which Devlan's new management team can develop a new viable entity with accelerated growth and greater asset appreciation. Their primary focus, aligned with Devlan's mission, is to increase and sustain cashflow. They are committed to applying their entire efforts and expertise, based on previous experience in setting up a successful petroleum company. Such results will be realized in a marked appreciation in shareholder value over the next twelve months.

This past year has been spent improving the bottom line. Last November 1, 1995, 80% of Oban's working interest in its Taber South East property was sold to reduce corporate debt. On November 30, 1995, the principals of 667349 Alberta Ltd. paid $200,000 in exchange for 2,000,000 Oban common shares. The financing paid off Oban's outstanding trade accounts and liabilities to a more acceptable working debt level, currently at $270,247. A private placement completed on January 16, 1996, raised $1,102,500 through the sale of 4,410,000 common shares.

Last December 1995, positive cashflow was accomplished by the acquisition of the Keho/Coaldale property in southern Alberta, which injected a gross monthly cash flow of $50,000 dollars. This property was acquired for $450,000. Production from the ten shallow gas wells here totals 750 million cubic feet per day. Two other shut in gas wells in Coaldale will be tied in, after pipeline completion. This three-inch 4.5 km pipeline is estimated to cost $120,000.

Then in February 1996, Devlan jointly purchased for $100,000 cash with Templar Energy Ltd. 16,000 acres of oil producing property near Oyen, central Alberta. A well at 10-36-29-06 W4 was successfully completed and tied in. It tested dry sweet gas from the Middle Belly River Zone at rates of 1.3 - 1.7 million cubic feet per day. A second well at 06-01-29-04 W4 was drilled and is currently under evaluation.

In March 1996, a wildcat well at 06-04-01-11 W4 was successfully drilled at Knappen along the Montana border. Initial results from this gas well look promising and are under further evaluation.

By Devlan's next year end, oil and gas production is to increase from 100 to 500 barrels of oil equivalent per day (BOED). A further 500 BOED is to be added during the following year. Negotiations are pending for the acquisition of a third core producing area, while non-producing core properties are transferring ownership. Sustained steady growth is to be achieved by additional acquisitions and developmental exploitation work.

DEVLAN EXPLORATION COMPANY Ltd.

Directors and Officers

Board of Directors of the Corporation

Roy Barr, C.A. (to be appointed April 1996)
Calgary, Alberta
Senior Partner at Barr Shelley Stewart

Martin J. Cheyne
Calgary, Alberta
President and Chief Executive Officer,
Devlan Exploration Company Ltd.

Gary J. Cochrane, LL.B.
Calgary, Alberta
Partner, Milner Fenerty *Lawyers*

Bradley B. Porter,
Calgary, Alberta
President, Bredal Energy Corp.

Lyle Reinhart,
Calgary, Alberta
President of Bowhart Holdings Ltd.

Officers of Devlan Exploration Company Ltd.

Martin J. Cheyne
President and Chief Executive Officer

Bradley B. Porter
Chief Financial Officer and Corporate Secretary

Mark D. Cheyne
Vice-President of Operations

Neil M. Torry
Vice-President of Production

Corporate Information

Head Office

Suite 620, 700 - 6th Ave. S.W.,
Calgary, Alberta
T2P 0T8

Telephone	(403) 233-7778
Fax	(403) 261-3808

Shares Listed

Alberta Stock Exchange

Registrar and Transfer Agent

Montreal Trust,
Suite 600, 530 8th Ave. S.W.,
Calgary, Alberta T2P 3X2

Legal Counsel

Milner Fenerty,
30th Floor, 237 4th Ave. S.W.,
Fifth Avenue Place.,
Calgary, Alberta T2P 4X7

Bank

Canadian Western Bank,
441 - 5th Ave. S.W.,
Calgary, Alberta T2P 2V1

Auditors

Breakell & Company,
428 - 2nd Street West,
Brooks, Alberta T1R 1C3

Financial and Operating Information

Annual reports are published every year, recording events up to the March 31 year end. Inter-im quarterly reports are issued on a regular basis. For further information, please contact Brad Porter or Marty Cheyne at (403) 233-7778.

Financial Statements of:

DEVLAN EXPLORATION COMPANY LTD.

March 31, 1996

BREAKELL & COMPANY
CHARTERED ACCOUNTANTS

BREAKELL & COMPANY
CHARTERED ACCOUNTANTS

428 - 2ND STREET WEST
BROOKS PROFESSIONAL BUILDING
P.O. DRAWER 1389
BROOKS, ALBERTA
T1R 1C3
TELEPHONE 362-4004
FAX (403) 362-3845

AUDITORS' REPORT

To the Shareholders of:
Devlan Exploration Company Ltd.

We have audited the balance sheet of Devlan Exploration Company Ltd. as at March 31, 1996 and the statements of loss, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly in all material respects the financial position of the company as at March 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Breakell & Company

Chartered Accountants

Brooks, Canada
June 6, 1996

DEVLAN EXPLORATION COMPANY LTD.
Balance Sheet

March 31, 1996, with comparative figures for 1995

	1996	1995
Assets		
Current:		
Accounts & cash calls receivable	$ 330,879	$ 204,816
Capital assets (note 4)	1,814,906	759,337
	$ 2,145,785	$ 964,153
Liabilities and Shareholders' Equity		
Current:		
Bank indebtedness (note 5)	270,247	2,201
Debentures payable (note 6)	50,000	80,000
Accounts payable and accrued liabilities (note 9)	369,688	384,849
	689,935	467,050
Notes payable (note 7)	–	137,500
Shareholders' equity:		
Share capital (note 8)	2,473,466	1,215,966
Deficit	(1,017,616)	(856,363)
	1,455,850	359,603
	$ 2,145,785	$ 964,153

See accompanying notes to financial statements.

Approved by the Board

Director

Director

DEVLAN EXPLORATION COMPANY LTD.
Statement of Loss and Deficit

Year Ended March 31, 1996, with comparative figures for 1995

	1996	1995
Production revenue:		
Net of royalties	$ 181,278	$ 117,800
Expenses:		
Operating	193,378	188,321
General and administrative	279,235	97,786
Interest	9,230	40,600
Depletion and depreciation	13,181	17,927
	495,024	344,634
Loss from ongoing operations	(313,746)	(226,834)
Other income (expenses):		
Settlement of debt	152,493	40,247
Loss on sale of capital assets	–	(500,000)
	152,493	(459,753)
Loss for the year	(161,253)	(686,587)
Deficit, beginning of year	(856,363)	(169,776)
Deficit, end of year	$ (1,017,616)	$ (856,363)
Loss per common share	(0.02)	(0.11)

See accompanying notes to financial statements.

DEVLAN EXPLORATION COMPANY LTD.

Statement of Changes in Financial Position

Year Ended March 31, 1996, with comparative figures for 1995

	1996	1995
Operating activities:		
Loss for the year	$ (161,253)	$ (691,587)
Items not involving cash		
Depletion and depreciation	13,181	17,927
Gain on settlement of notes	(137,500)	–
Gain on forgiveness of interest	(14,993)	–
Loss on sale of capital assets	–	500,000
	(300,565)	(173,660)
Changes in non-cash working capital	(126,231)	(308,007)
	(426,796)	(481,667)
Financing activities:		
Repayment of notes	(30,000)	(30,000)
Proceeds of share issues, net	1,257,500	291,025
Recoveries arising from renegotiation of capital expenditures	–	249,828
Conversion of debentures for equity	–	(135,000)
Conversion of notes for equity	–	(137,500)
Redemption of short term notes payable	–	(137,500)
Issuance of notes payable	–	137,500
	1,227,500	238,353
Investing activities:		
Purchase of capital assets	(1,218,750)	–
Proceeds on disposal of capital assets	150,000	120,000
Settlement of accounts payable on sale of capital assets	–	130,000
	(1,068,750)	250,000
Cash increase (decrease) during the year	(268,046)	6,686
Bank overdraft, beginning of year	(2,201)	(8,887)
Bank overdraft, end of year	$ (270,247)	$ (2,201)
Funds lost from operations per common share	(0.03)	(0.09)

See accompanying notes to financial statements.

1. General:

The Corporation was a junior capital pool company, the common shares of which were listed and posted for trading on the Alberta Stock Exchange on April 14, 1993. On July 21, 1993, the shareholders of the Corporation approved, by the majority of the minority, the acquisition of Petenco Resources Ltd's 100 percent working interest in certain oil and gas properties for $200,000. This acquisition qualified as the Corporation's Major Transaction as defined in Alberta Securities Commission Policy 4.11. The Corporation commenced active operations on June 1, 1993 being the effective date of acquisition of the property. Therefore, these financial statements reflect active operations from that date forward.

2. Name Change:

Effective February 14, 1996 the company changed its name from Oban Petroleums Inc. to Devlan Exploration Company Ltd.

3. Basis of Presentation and Summary of Significant Accounting Policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada.

a) Petroleum and Natural Gas Operations

The corporation follows the full cost method of accounting for petroleum and natural gas operations whereby all costs incurred for exploration and development of petroleum and natural gas reserves are capitalized. Capitalized costs include lease acquisition costs, geological and geophysical expenditures, the cost of drilling both productive and non-productive wells, related plant and production equipment costs. Proceeds received on the sale of petroleum and natural gas properties are credited to the capitalized costs, except when such a disposal would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss on disposal is recorded. Certain wells have been disposed of that met the aforementioned test and a loss of $ Nil (1995 - $500,000) is reflected in the financial statements.

Depletion of petroleum and natural gas properties and depreciation of production equipment are provided on the unit-of-production method based upon the estimated proven reserves before royalties, as estimated by independent reservoir engineers. Natural gas reserves and production are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil.

The capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount equal to estimated future net revenues from proven reserves (based on current prices and costs as at the balance sheet date). The total capitalized costs less depletion and depreciation and deferred income taxes of all cost centres are further limited to the aggregate estimated future net revenues for all cost centres are further limited to the expenses, provision for future site restoration and abandonment costs, future financing costs and income taxes. Any costs carried on the balance sheet in excess of the ceiling test limited are charged to earnings.

The estimated costs for future site restoration and abandonment, net of expected recoveries, are provided on a unit-of-production basis and included in depletion and depreciation expense. These are based on engineering estimates of costs, and regulations in effect at year end.

Substantially all of the exploration and production activities are conducted jointly with others and accordingly, the Corporation only reflects its proportionate interest in such activities.

b) Loss per Common Share

Loss per common share is calculated on the basis of the weighted average number of common shares outstanding during the year. The exercise of the outstanding stock options and warrants would be anti-dilutive.

March 31, 1996, with comparative figures for 1995

4. **Capital Assets:**

	Asset Cost	Accumulated Depletion & Depreciation	1996 Net Book Value	1995 Net Book Value
Petroleum and natural gas properties	$ 1,872,110	$ 57,204	$ 1,814,906	$ 759,337

5. **Bank Indebtedness:**

The company has a line of credit of $300,000 that bears interest at a certain banks prime rate.

6. **Debentures Payable:**

As of March 31, 1996 the Corporation has outstanding debentures to related parties in the principal amount of $50,000 (1995-$80,000) as partial consideration in the acquisition of an oil and gas property. The balance of the debentures is due in fiscal 1997. The debentures bear interest at a certain chartered bank's prime rate with certain assets pledged as security. The balance of the debentures are redeemable at any time at the option of the Corporation at a price equal to the principal amount outstanding and are convertible at any time into common shares of the Corporation at a rate of $0.65 for each common share to be issued. At the discretion of one debenture holders, $Nil (1995 - $135,000) were converted into nil (1995 - 207,692) common shares.

7. **Notes Payable:**

Notes are payable to related parties and bear interest at 15 percent per annum with certain oil and gas properties pledged as collateral. Certain note holders $Nil (1995 - $137,500) converted their notes into common shares at $0.27 per share. The balance of the notes payable have been forgiven or cancelled by management.

A note holder $38,915 is disputing the cancellation of his notes. Management position is that the company is not liable for the disputed amounts.

8. Share Capital:

Authorized:

Unlimited number of common voting shares without nominal or par value.
Unlimited number of first preferred shares.
Unlimited number of second preferred shares.

The first and second preferred shares may be issued in one or more series and the Directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

Issued:

	No. of Shares	Consideration
Balance issued and outstanding, March 31, 1995	7,527,202	$ 1,215,966
Issued on re-organization (1)	2,000,000	200,000
	9,527,202	1,415,966
Shares to be issued in 1997:		
Issued on flow through share offering (2)	4,410,000	1,057,500
Balance issed and outstanding, March 31, 1996	13,937,202	$ 2,473,466

(1) As part of the company's re-organization these shares are held in escrow until November 30, 1996 and restructuring 2,000,000 shares were issued to the new officers and directors of the company in exchange for $200,000.

(2) The company, under certain exemptions of the Alberta Securities Act issued 4,410,000 flow through shares at $0.25 per shares. These shares are held in escrow until January 1, 1997.

The Corporation has established a Stock Option Plan for the benefit of directors, key officers, employees and consultants of the Corporation. On January 12, 1993, options were granted for an aggregate 380,000 common shares which may be exercised at a price of $0.10 per share until January 12, 1998. Nil (1995 - 135,250) shares were issued on exercise of these options.

Nil (1995 - 527,780) shares have been issued on the conversion of debt from related parties.

9. Related Party Transactions:

Accounts payable include $ 45,284 (1995 - $ 109,959) to a company controlled by officers and directors of the corporation.

10. Income Taxes:

As at March 31, 1996, the Corporation has approximately $ 800,000 (1995 - $ 600,000) of non-capital losses (subject to confirmation by income tax authorities) available to reduce future years' income for income tax purposes. The benefit of these losses will be recognized in the financial statements when realized.